

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**
FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER:

0 1 — 0 3 8

2. STATE:

Arkansas

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL
SECURITY ACT (MEDICAID)TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

March 1, 2002

5. TYPE OF PLAN MATERIAL (Check One):

☐ NEW STATE PLAN☐ AMENDMENT TO BE CONSIDERED AS NEW PLAN☒ AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:

42 CFR, Part 447, Subpart F

7. FEDERAL BUDGET IMPACT:

a. FFY 2002 \$ (5,106,785.00)

b. FFY 2003 \$ (8,754,488.00)

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-B, Page 4
Attachment 4.19-B, Page 4a
Attachment 4.19-B, Page 4aa
Attachment 4.19-B, Page 4aaa9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):Same, Approved 8-3-01, TN 01-07
Same, Approved 8-3-01, TN 01-07
None, New Page
None, New Page

10. SUBJECT OF AMENDMENT:

The Arkansas Title XIX State Plan has been amended to reflect a revision in the
reimbursement methodology for prescribed drugs.

11. GOVERNOR'S REVIEW (Check One):

- ☒
- GOVERNOR'S OFFICE REPORTED NO COMMENT
-
- ☐
- COMMENTS OF GOVERNOR'S OFFICE ENCLOSED
-
- ☐
- NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

☐ OTHER, AS SPECIFIED:

12. SIGNATURE OF STATE AGENCY OFFICIAL:

13. TYPED NAME:

Ray Hanley

14. TITLE:

Director, Division of Medical Services

15. DATE SUBMITTED:

December 10, 2001

16. RETURN TO:

Division of Medical Services
P. O. Box 1437
Little Rock, AR 72203-1437Attention: Binnie Alberius
Slot XXXX S295

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

DECEMBER 12, 2001

18. DATE APPROVED:

January 25, 2002

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:

March 1, 2002

20. SIGNATURE OF REGIONAL OFFICIAL:

21. TYPED NAME:

CALVIN G. CLINE

22. TITLE:

ASSOCIATE REGIONAL ADMINISTRATOR
DIV OF MEDICAID AND STATE OPERATIONS

23. REMARKS:

DEC 13 2001

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
MEDICAL ASSISTANCE PROGRAM
STATE ARKANSAS

ATTACHMENT 4.19-B
Page 4

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES -
OTHER TYPES OF CARE

Revised: March 1, 2002

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist

a. Prescribed Drugs

The reimbursement rate has two components:

DISPENSING FEE: The Dispensing Fee is set at \$5.51, which represents the survey findings of a statistically valid actual cost of dispensing.

INGREDIENT COST: To assure quality of care and access, to assure efficiency and economy and safeguard against unnecessary utilization payment for ingredient cost for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of AWP (AWP-14%) for brand name drugs and 75% of AWP (AWP-25%) for multi-source (generic) drugs.

PAYMENT LIMITATIONS-INGREDIENTS: Arkansas Medicaid identifies certain brand and generically available drugs and places an upper limit on these drugs. Acquisition costs on these drugs are obtained from multiple sources. Depending on the variance, either the highest acquisition cost or an average of the acquisition costs is obtained and a percentage applied to determine a state upper limit.

Those drugs identified administratively, judicially or by a federal agency as having an Average Wholesale Price far exceeding the actual acquisition cost, and whose average sales price is presented to the state, will be subject to a state upper limit set by reference to the average acquisition cost.

The Federal upper limit standard that has been adopted for certain multiple source drugs identified in the State Medicaid Manual, Part 6, is based on an aggregate payment equal to an amount that includes the ingredient cost of the drug calculated according to the formula described below.

The Federal upper limit is an amount that is equal to 150% of the published price for the least costly therapeutic equivalent (using all available national compendia). The aggregate, rather than each individual drug identified by HCFA will be less than or equal to the HCFA defined multiple source cost listed in 42 CFR 447.332.

SUPERSEDES: TN. AR-01-07

STATE	<u>Arkansas</u>
DATE REC'D.	<u>12/12/01</u>
DATE APP'D.	<u>01/25/02</u>
DATE EFF.	<u>03/01/02</u>
HCFA #	<u>AR-01-38</u>

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
MEDICAL ASSISTANCE PROGRAM
STATE ARKANSAS

ATTACHMENT 4.19-B
Page 4a

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES -
OTHER TYPES OF CARE

Revised: March 1, 2002

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist

a. Prescribed Drugs (Continued)

Reimbursement for the ingredient cost of these drugs is limited to the lesser of the state upper limit, federal upper limit or the providers usual and customary.

The State may deviate from the lesser of payment in the event that the state determines, under a HCFA approved separate/supplemental drug rebate agreement, that in the aggregate the expenditures for these drugs agreed to in the separate/supplemental rebate agreement would be reduced.

PAYMENT LIMITATION-INGREDIENT COST AND DISPENSING FEE: The total charge cannot exceed the provider's actual usual and customary charge to the public.

Rationale for Rates:

In January 2001, the Division of Medical Services (DMS) Prescription Drug Program commissioned surveys to determine the cost of dispensing prescriptions and the Agency's best estimate of the acquisition costs generally and currently paid by providers for prescription drugs in the State of Arkansas. Final reports on each survey were issued June 30, 2001. Based upon the finding of the report establishing the Agency's best estimate of the price generally and currently paid by providers in Arkansas, DMS amends the Estimated Acquisition Cost component of Medicaid reimbursement rate for prescription drugs. DMS will implement the amended rate effective March 1, 2002. Based upon the findings of the survey the dispensing fee component of the rate will not be amended. The present rate reimburses providers approximately 110% of the estimated median cost of dispensing prescription drugs and should afford access equivalent to the general population.

The estimated acquisition cost survey analyzed acquisition cost data for more than 8000 drug products, representing approximately 94% of Arkansas Medicaid drug reimbursement. The survey contained the following summary of significant findings:

1. For the 334 pharmacies in the sample with external invoices, acquisition costs ranged from 71.2% to 87.7% of the AWP. The average acquisition cost was 82.2% of the AWP, with a standard deviation of 1.2%.
2. Including pharmacies that provided invoices from an internal wholesaler, the average acquisition cost was 82.7% of the AWP, with a standard deviation of 1.4%.

SUPERSEDES IN- AR-01-07

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DATE REC'D	<u>12/12/01</u>
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HCFA 179	<u>AR-01-38</u>

A

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
MEDICAL ASSISTANCE PROGRAM
STATE ARKANSAS

ATTACHMENT 4.19-B
Page 4aa

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES -
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Revised: March 1, 2002

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist

a. Prescribed Drugs (continued)

3. Eight of the pharmacies in the sample were institutional providers that dispensed prescriptions to patients in long-term care or other institutional settings. Acquisition costs at these pharmacies for brand name drug products averaged 79.5% of the AWP, as compared to 82.2% for pharmacies that dispensed prescriptions in traditional retail settings. This difference was found to be statistically significant by the application of a t-test at the 5% level of significance.
4. Of the 1,752 brand name drug products, acquisition costs for brand name drugs ranged from 33.5% to 99.3% of the AWP with an average acquisition cost of 81.0% of the AWP (based on observations from external invoices only).
5. The acquisition costs for multi-source drugs exhibited much greater variation, but averaged 54.0% of the AWP for drugs without FUL prices. For multi-source drugs with FUL prices, the average acquisition cost was 17.8% of the AWP and 45.9% of the FUL.

The survey concluded that the present ingredient reimbursement rate provides payments in excess of costs incurred by Arkansas pharmacies. The agency expends a high proportion of its drug budget on prescription for brand name drugs. The survey also suggested that the present reimbursement rate may provide an incentive to dispense higher cost drug products. DMS is setting a rate that is consistent with the survey that will safeguard against unnecessary utilization, assure payments are consistent with efficiency, economy and quality of care, and sufficient to enlist enough providers so that care and services are available at least to the extent such care and services are available to the general population.

The survey predicts to a 95% level of confidence, that the mean estimated acquisition cost for brand name drugs ranges from 82.0% to 82.3% of AWP. The average estimated acquisition cost is 82.7% of AWP (AWP-17.3%). For multi-source drugs with no federal upper limits (FUL) the average estimated acquisition cost ranges from 10% to 85% of AWP. The average estimated acquisition costs is 67.5% of AWP (AWP-32.5%). Under the rule payment for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of AWP (AWP-14%) for brand name drugs and 75% of AWP (AWP-25%) for generic or multi-source drugs.

SUPERSEDES: NONE - NEW PAGE

STATE	Arkansas
DATE RECD	12/12/01
DATE APPVD	01/25/02
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HCFA 179	AR-01-38

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STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
MEDICAL ASSISTANCE PROGRAM
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Page 4aaa

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES -
OTHER TYPES OF CARE

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12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist (Continued)

a. Prescribed Drugs (Continued)

The survey predicts that 99.9% of pharmacies in Arkansas have an acquisition cost equal to or less than 86% of AWP for brand name drugs. The estimated acquisition cost reimbursement component of the Medicaid reimbursement rate provides an average reimbursement to cost ratio similar to the average within the pharmacy industry. A reimbursement rate providing a return similar to the return derived from the general population should assure Medicaid recipients access to services equal to the general population.

The survey concluded that there is no significant difference in estimated acquisition costs of independent and chain retail pharmacies. The survey reveals that pharmacies which purchase brand name drugs from external wholesalers have a lower average estimated acquisition cost than pharmacies purchasing brand name drugs from an internal wholesaler. Based upon these observations it is reasonable to conclude that all providers have access to similar efficiencies and economies and should be able to engage in purchasing practice at or near the statewide average.

The survey estimates that ¾ of multi-source (generic) drugs are purchased at AWP-25% or less. As is the case with brand name drugs, the survey predicts that all classifications of pharmacies have access to similar efficiencies and economies and should be able to purchase multi-source drugs at or near the statewide average.

SUPERSEDES: NONE - NEW PAGE

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DATE RECD	12/12/01	
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**DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services**

Calvin G. Cline

Associate Regional Administrator, Medicaid and State Operations

1301 Young Street, Room 827
Dallas, Texas 75202
Phone (214) 767-6301
Fax (214) 767-0270

January 25, 2002

Our Reference: SPA-AR-01-38

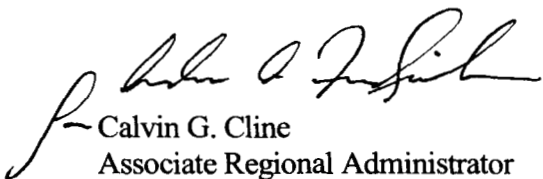
Mr. Ray Hanley, Director
Division of Medical Services – Slot 1103
Arkansas Department of Human Services
Post Office Box 1437
Little Rock, Arkansas 72203-1437

Dear Mr. Hanley:

We have enclosed a copy of HCFA-179, Transmittal Number 01-38, dated December 10, 2001. This amendment revises the ingredient cost for prescription drugs. However, please understand that we did not independently verify your survey that was identified in the Plan.

We have approved the amendment for incorporation into the official Arkansas State Plan effective March 1, 2002. If you have any questions, please call Bill Brooks at (214) 767-4461.

Sincerely,



Calvin G. Cline
Associate Regional Administrator
Division of Medicaid and State Operations

Enclosure

cc: Elliott Weisman, CMSO

